



Democracy 21

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Fred Wertheimer
President

November 26, 2002

Alva Smith
OGC Docket
Federal Election Commission
Office of General Counsel
999 E Street, NW
Washington, DC 20463-0002

Dear Ms. Smith,

I am enclosing three sets of the exhibits that accompany the complaint filed with the Federal Election Commission on November 21, 2002 by Democracy 21, Common Cause, the Campaign and Media Legal Center and The Center for Responsive Politics.

Thank you very much for your attention to this matter.

Sincerely,

Fred Wertheimer
President

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OFFICE OF GENERAL
COUNSEL

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Democracy 21

Parties Create Ways to Avoid Soft Money Ban

THE NEW YORK TIMES

State Groups to Collect Unlimited Donations

By DON VAN NATTA Jr.
and RICHARD A. OPPEL Jr.

WASHINGTON, Nov. 1 — The Republican and Democratic Parties have established fund-raising vehicles for unlimited campaign checks to thwart a new federal law banning "soft money" contributions that goes into effect after the election on Tuesday.

According to party officials and fund-raisers, both national political parties have set up state organizations and other groups that will continue to collect and spend the large unlimited campaign checks after they are barred to the national political parties by the McCain-Feingold campaign finance law on Nov. 6.

At a meeting two weeks ago, the chairman of Democratic National Committee, Terry McAuliffe, told a group of 40 of the party's most prolific fund-raisers that he expected a newly created spinoff organization, the Democratic State Party Organization, to raise approximately \$40 million in soft money before the 2004 presidential election, two party fund-raisers said.

Under the McCain-Feingold bill, passed earlier this year, the national political parties cannot directly solicit or spend soft money after Election Day, but state political parties may continue to accept some unlimited donations. Independent political groups and nonprofit organizations closely allied with the political parties can also continue to raise and spend soft money.

A longtime Democratic fund-raiser who attended a secret party conclave at the Mayflower Hotel here described Mr. McAuliffe's message as boiling down to "this campaign finance reform stuff is nothing but junk." The fund-raiser, who insisted on not being named, explained: "Terry said, 'This is the last time we'll be asking you for money — after Nov. 5, we can't do it anymore. But get out there next year and in 2004 and continue to raise all this soft money.'"

Mr. McAuliffe did not return several phone calls seeking comment over the past several days. Maria Cardona, a spokeswoman for the Democratic National Committee, disputed that Mr. McAuliffe set a

dollar goal. "No one ever remembers this goal that you are talking about," Ms. Cardona said. "Terry did not say it."

Marc Racicot, the chairman of the Republican National Committee, said that while "there certainly have been some abstract discussions about what the law will allow," the committee has not set up a group to raise and spend soft money.

Of the Democratic committee's plans, Mr. Racicot added, "It appears somewhat odd that on the one hand you allegedly support campaign-finance reform, and on the other hand you set about to create, in a completely inconsistent way, an organization that undermines the very principles you are espousing."

Joe Carmichael, the president of the Democratic State Party Organization, said he recalled Mr. McAuliffe telling the donors and fund-raisers to assist the newly created party group. "When Joe calls, I want you to take his phone call," Mr. Carmichael recalled Mr. McAuliffe saying.

Some Republicans have moved to keep the soft money checks flowing after the ban takes effect on Wednesday. A Republican group, headed by the former chief of staff to the House Republican whip, Tom DeLay, will be "the House go-to operation," said Scott Reed, a prominent party strategist who ran Bob Dole's 1996 presidential campaign.

Because it is independent from other national Republican Party organizations, the group, the Leadership Forum, can solicit and accept soft money from the same donors who once wrote the largest checks to the formal party committees. "This is the way politics and campaigns will be run under the new law," Mr. Reed said.

As the ban on soft money approaches, officials of both parties have been scrambling to insure that soft money will continue to play a major role in future presidential elections through these new groups, which began to spring up during the summer. The parties raised a record total of \$495 million in soft money before the 2000 election, and it was spent on get-out-the-vote programs and television commercials that appeared to be issue advertisements but were actually used to assist candidates. This election cycle, with the ban looming, soft money fund-raising by the two parties has already totaled more than \$420 million and is likely to eclipse the 2000 record.

NY 11/2/02
P. 2

Senator John McCain, the Arizona Republican who was a co-author of the bill banning soft money donations, said today that he found the jockeying by the political parties to raise soft money "disgusting."

"We're going to fight them," Mr. McCain said in an interview from his home in Arizona. "We didn't fight for seven years to get this law passed in order to see people emasculate it. We'll fight them, and we'll fight them in the courts, and we'll fight them on the floors of Congress. And we'll do everything we can to make sure we have meaningful campaign finance reform in this country."

Larry Noble, the former general counsel of the Federal Election Commission and now executive director of the Center for Responsive Politics, said that both parties were preparing to violate "the spirit of the McCain-Feingold bill."

"There's going to be a very thin line between these so-called independent groups and the party committees," Mr. Noble said. "It's what everybody feared. Neither party wasted any time looking for ways to get around the soft-money ban. These groups are going to have to be watched closely."

Mr. Carmichael said that his organization intended to spend the

A bill's co-author says he will fight the parties' planned subversion of law.

large checks it receives on get-out-the-vote efforts and party registration programs in states where such spending is legal. He also disputed that Mr. McAuliffe set a specific fund-raising goal for his group.

Republican fund-raisers say that senior party officials have made it clear that the Republican Governors Association will be another primary avenue for raising soft money. To allow it to continue to be able to raise and spend soft money, the governors' group recently severed its ties with the Republican National Committee, said John G. Rowland, the Connecticut governor who is chairman of the group.

Mr. Rowland says he expects the association "to become more of a presence in the Republican Party." The group, which has raised and spent about \$20 million for this election, "will try to raise as much as we

can to be supportive of Republican candidates within the confines of the law." When asked if he had discussed future soft money fund-raising with Republican party leaders, Mr. Rowland responded, "Not really."

Similarly, the Democratic Governors Association, which has raised about \$9 million for this election, also plans an expanded role raising soft money once the new law takes effect.

B. J. Thornberry, the executive director of the association, said, "Governors are the ones who can still legally raise these funds." She said she expected to see "a lot of competition for soft dollars" from the scores of independent groups now being created specifically to raise such money.

Democrats remain far more reliant on soft money than Republicans: Through Oct. 16, about 61 percent of money raised by the national Democratic Party committees was soft money, compared to 43.4 percent of the money raised by the Republican committees.

At the Mayflower Hotel meeting on Oct. 15, party officials handed out a nine-page document on the goals of the Democratic State Party Organization. A copy of the document was obtained by The New York Times.

"This organization is being created in order to comply with the new campaign finance law," the document says. It goes on to say that the organization "would have the same legal status as a state party" and it "would not be legally affiliated with, controlled or financed by the Democratic National Committee."

McCain-Feingold prohibits any group "established, financed, maintained or controlled" by a national party from raising or spending soft money. But in June, the Federal Election Commission approved a loophole so that only actions and activities occurring after the election would be used in determining violations of this provision. Groups set up before Election Day, therefore, may not be subject to sanctions. That ruling, and others by the commission, have been challenged in court by sponsors of the law.

"In my view, the activities being planned are blatantly illegal and represent a conspiracy by the D.N.C. and the new sham group being created to massively evade the new law banning soft money," said Fred Wertheimer, president of Democracy 21 and a leading proponent of the McCain-Feingold law. "We will explore bringing every possible legal challenge we can to stop either political party from breaking the new law."

Campaign Money Finds New Conduits As Law Takes Effect

Shadow Organizations to Raise 'Soft Money'

By THOMAS B. EHRHART
Washington Post Staff Writer

With the McCain-Feingold campaign finance law taking effect tomorrow, top Republican lobbyists and Democratic operatives are putting finishing touches today on shadow organizations designed to evade the intent of the law and continue the flow of unregulated "soft money" into presidential and congressional campaigns.

These new committees are being created with full knowledge of, and advance clearance by, the House and Senate leadership, including top Democrats who led the fight for passage of the McCain-Feingold measure: prohibiting the national parties and candidates for federal office from raising and spending soft money. All the party committees, the Democratic and Republican national, Senate and House campaign committees, are engaged in setting up one or more special conduits for soft money, according to reliable sources, with each operating under varying degrees of secrecy.

"May a thousand flowers bloom," declared a Republican legal specialist who

would like to see as many soft money options emerge as possible so that financial backers can put money in to media, get-out-the-vote and other election activities of their choosing. In 2000, party committees raised and spent nearly \$500 million in soft money and they are on track to beat that record this year.

The new law gives into effect tomorrow, and it faces immediate court challenge with briefs to be filed tomorrow in accelerated proceedings that will put the McCain-Feingold bill before the Supreme Court within months.

New committees with ties to the Democratic senatorial and congressional campaign committees will register with the Federal Election Commission today, sources said.

In addition, Harold Ickes, who was an aide to President Bill Clinton, will take responsibility for a special "presidential media" soft money committee, several Democratic sources said. A Republican group called the Leadership Forum, run by two prominent GOP lobbyists, has already registered with the Internal Revenue Service, and officials at the National Republican



Lawmakers, from left, Reps. Christopher Shays (R-Conn.), Martin T. Meenan (D-Mass.), and Sen. Russell Feingold (D-Vt.), prepare for a news conference yesterday in the Capitol about soft money in campaign finance.

Senatorial Committee say they are helping form soft-money committees that under law will not have to disclose who gives money or how the money is spent.

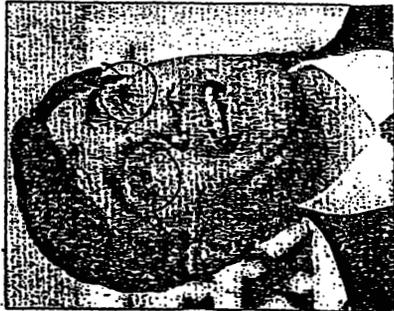
Sen. John McCain (R-Ariz.), the lead sponsor of the campaign finance legislation, vowed to "fight these activities in the courts, in Congress, wherever we have to."

The Democrats are generally setting up committees to channel the controversial large, unregulated donations from corporations, unions and rich people that are required by law to disclose their sources of money and how they spend it on advertising, voter registration or other political activities. Most Republican strategists are creating groups that are not required to disclose the sources of money or how it is spent. That's a no-brainer. Most donors don't want their names in the paper, said one Republican.

A key GOP committee to channel soft money to House campaigns has been set up by two prominent lobbyists, former representative Bill Paxon (R-N.Y.) and Susan Hirschmann, a former aide to House Majority Whip Tom DeLay (R-Tex.).

Paxon, vice president of the Leadership Forum, has 51 clients including drug companies, Japanese banking interests, the chemical industry and waste disposal companies. Hirschmann, the president of the committee, works in a firm with a list of lobbying clients very similar to Paxon's.

In its registration with the IRS, the Leadership Forum said it would "engage in nonfederal political activities on state and local levels and to engage in dialogue on is-



Former representative Bill Paxon, shown in 1994, is vice president of the Leadership Forum, a new GOP group designed to handle unregulated political donations.

ues of importance to all Americans." A number of Republican lawyers who are not directly involved in the Paxon-Hirschmann venture said the two lobbyists are opening themselves up to a host of potential legal difficulties because the McCain-Feingold law sets severe restrictions on the ability of those tied to soft-money groups to communicate with federal officials, the essence of lobbying work.

"I don't know what Bill is up to, but he is going to have Fred Wertheimer on his back demanding depositions explaining every conversation he has with any congressman. He and Hirschmann have clients who pay them to talk to the leadership. How can they put that at risk?" said one Republican election-law specialist. Wertheimer runs Democracy 21, which is one of the leading advocates of the McCain-Feingold bill and which has gone into court to force tougher enforcement.

The Republican chairman in a major state volunteered: "I hope Paxon and Hirschmann help my candidates, but there is no way I'll talk to them. I'm not going to spend my days in court explaining what when and where."

Neither Paxon nor Hirschmann returned phone calls. In addition, two other people are listed on the Leadership Forum IRS filing: Julie Wadler, president of Epoch any Productions and former deputy financial director of the National Republican Congressional Committee, and J. Randolph E. Web, an Atlanta lawyer who declares on his Web site that his clients include "the United States House of Representatives, New Gingrich (R-Ga.) and Dennis Hastert (R-Ill.)." Wadler and Evans did not return phone inquiries seeking comment.

Many of those involved in creation of soft-money groups declined to provide tailored specifics on the record, for fear of legal challenges by Wertheimer, Comm Cause and other groups that support campaign finance legislation. "It would be fair to my clients," pleaded one source.

Washington Post, November 5, 2002.

Keeping the Soft Money Flowing

With time running out before the national party committees are barred from accepting soft money, the Democratic National Committee hosted a meeting of some 20 party donors who were told about a new group that can legally accept soft money after Election Day. Party stars at the recent get-together included DNC Chairman Terry McAuliffe; former top Clinton aide Harold Ickes, who is now a DNC consultant; and Joe Carmichael, who runs the new group, the Democratic State Party Organization. Such big party donors as trial lawyer Stan Chesley, longtime patron Elizabeth Bagley, and several K Street fundraisers learned that the DSPO will be a key vehicle for receiving soft dollars after the restrictions take effect on November 6. The DSPO was set up to help advise and train state parties to register and turn out voters. Under new campaign finance rules, it would also be among several organizations working to ensure that tens of millions in soft dollars that have gone to the DNC and the Democratic congressional campaign committees don't disappear. The meeting "was an opportunity for the state parties to make their pitch, which is what I did," says Carmichael.

—Peter H. Stone

GOP Gets Generous With Soft Money

By John Bresnahan

In a frenzied scramble to get rid of their soft money before the Nov. 6 ban went into effect, the House and Senate GOP campaign committees gave away hundreds of thousands of dollars to charity, made swaps with state parties for hard dollars and pumped huge sums into state legislative races.

The National Republican Congressional Committee donated a combined \$126,000-plus to the Ronald Reagan Library, Betty Ford Clinic and a charity supported by first lady Laura Bush. It also gave \$325,000 to Oklahoma State University and another foundation favored by retiring Rep. Wes Watkins (R-Okla.), and dumped more than \$700,000 into an effort to prop up Illinois Republicans in state races, among other last-minute moves.

In addition, NRCC Chairman Tom Davis (Va.) steered large

chunks of soft money back home. The Fairfax County Republican Party was the lucky recipient of \$250,000 for its new headquarters, a Prince William County charity got \$50,000, and Jeb Stuart High School in Falls Church received \$25,000 for its scholarship fund.

The Pennsylvania and Illinois Republican parties received \$150,000 and \$200,000, respectively, from the NRCC for new buildings. The North Carolina Republican Party, during a period from July to November, got more than \$540,000 for its headquarters.

All this comes on top of the \$1 million the NRCC gave to the Leadership Forum, a new 527 organization run by a former top aide to incoming House Majority Leader Tom DeLay (R-Texas). The group will raise funds to help defend GOP

Continued on page 26

GOP Doled Out Soft Money to Charity, State Parties

Continued from page 1
lawmakers with issue ads during the 2004 elections.

Most of these donations came from the NRCC's building fund. Such accounts are supposed to pay for building upkeep for the NRCC and are limited in how they can be used. The NRCC raised more than \$4 million for the building fund this cycle.

Senate Republicans, for their part, used soft money to pay off the \$2.8 million mortgage on their headquarters, as well as other bills owed by the National Republican Senatorial

Committee, leaving the organization debt-free heading into the next cycle. Normally, campaign committees carry several millions of dollars from one cycle to the next.

The NRSC also swapped \$2.8 million in soft money with the Florida Republican Party for hard money just days before the election. That exchange — plus the roughly \$750,000 traded with the Indiana, Kentucky and Missouri Republican parties over the final month of the campaign — gave the committee some hard money to use in key races. More importantly, it also provides the NRSC

with the flexibility to cover its expenses as the two parties struggle to adjust to the new fundraising landscape.

The NRSC, like the NRCC, spent hundreds of thousands of dollars on new computers and other technology upgrades as well, according to Republican insiders.

And on top of that, the NRSC donated \$225,000 to a charity created by former Sen. Connie Mack (R-Fla.). Mitch Bainwol, the NRSC's executive director, was a top Mack aide before the Senator retired from Congress in 2000.

Like House Republicans, NRSC officials set up their own nonprofit organization to run issue ads on behalf of Senate GOP candidates and incumbents in 2004. Unlike their House counterparts, however, the NRSC gave no money to the new group.

Neither the NRSC nor NRCC would comment on their soft-money activities. Officials at both committees noted that all their actions were perfectly legal and will be detailed in future disclosure reports filed with the Federal Election Commission.

Democrats were stunned to learn that both

the NRSC and NRCC had money left to burn at the end of what was the most expensive midterm elections in history.

"That's not a problem we were faced with," joked a senior House Democratic aide. "We were scraping the bottom of the barrel for every dime we could get."

Senate Democrats, who actually outraised their GOP counterparts, paid off the \$3.2 million dollar tab for their new campaign headquarters building across from the Supreme Court, in addition to covering a \$3 million loan taken out by the Democratic Senatorial Campaign Committee.

But the DSCC is also facing a hard-money debt of roughly \$5.7 million heading into next year, according to Democratic sources. With Democrats having to defend 19 seats in the 2004 cycle, versus only 15 for Republicans, the DSCC is already facing a tremendous financial challenge. The DSCC did not give any money to an outside entity created to raise and spend soft money.

The Democratic Congressional Campaign Committee did not have anywhere near the financial resources of the NRCC, although it did steer large amounts of soft money into key states in the final stretch of the campaign.

For instance, during a five-week period beginning in early September, the DCCC sent more than \$2.6 million to the Texas Democratic Party. Roughly \$1.5 million of that total went to helping elect Democrat Chris Bell, who replaced departing Rep. Ken Bentsen (D). The rest was used to assist endangered Democratic incumbents in Texas like Reps. Chet Edwards and Charlie Stenholm. Most of the funds were soft money raised through the DCCC by Rep. Martin Frost.

The DCCC also used millions in soft money to help oust GOP Reps. Felix Grucci (N.Y.) and Connie Morella (Md.), as well as to help boost their candidates in several competitive House races in Iowa.

But the DCCC did not give any money to charity or fund a 527 or other nonprofit organization, according to Howard Wolfson, the committee's executive director. "We spent all our soft money on issue ads and [get-out-the-vote] activities," he said.

The NRCC, on the other hand, gave \$50,000 to the Reagan Library and another \$25,000 to the Betty Ford clinic. An organization called Reach Out and Read, which Laura Bush has repeatedly praised, got \$51,878. Another \$15,000 was given out Sept. 30 to the Ex-WorldCom Employee Assistance Fund in Dunwoody, Ga. The DCCC has also donated to that fund.

Illinois Republicans were another favored recipient of the GOP largess. According to one senior Republican strategist, as much as \$3 million was put into Prairie State legislative races by the NRCC, Speaker Dennis Hastert (R-Ill.) and the Republican National Committee over the past several months.



File Photo by Tom Williams

At Speaker Dennis Hastert's urging, the NRCC poured big money into Illinois.

Party leaders, largely at Hastert's urging, were trying to stem a Democratic landslide in that key Midwestern state. Rep. Rod Blagojevich (D) won his gubernatorial contest over a Hastert ally, Attorney General Jim Ryan, and Democratic Sen. Dick Durbin cruised to an easy re-election victory.

With Hastert pulling the strings, and Illinois having no restrictions on soft money, the NRCC handed out between \$700,000 and \$800,000 to dozens of Illinois lawmakers in September and October. The NRCC also gave \$50,000 to Hastert's soft-money leadership PAC, the KOMPAC State Fund. That fund is now closed.

In addition to the NRCC donation, Hastert gave another roughly \$750,000 from the KOMPAC State Fund to Illinois state candidates. Hastert also put another \$100,000 in hard money from his re-election campaign into state races as well, and the RNC kicked in hundreds of thousands of dollars.

The NRCC donation of \$325,000 to the Oklahoma State University Foundation and the Oklahoma Foundation for Career and Technology Education was part of a swap with Watkins, who is retiring.

Watkins was sitting on more than \$600,000 in hard money, which was coveted by NRCC officials. Those hard dollars could be used directly to help out candidates and incumbents, unlike soft money.

Watkins gave the NRCC \$275,000 in hard money, and the NRCC then gave \$325,000 to OSU and the other foundation on September 12.

Paul Kane contributed to this report.



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Roll Call, November 14 2002.

Revamped DeLay PAC May Fund STOMP

By Susan Crabtree
Political operatives close to House Majority Whip Tom DeLay (R-Texas) are eyeing his former soft money leadership PAC as a war chest for future GOP ground wars. For the first time in modern political history Republicans are proud of their get-out-the-vote efforts, which GOP observers argue

gave them the edge in dozens of competitive House contests last week. The national Republican Party committees spent millions on the effort, which included a turnout program spearheaded by DeLay that transported some 8,000 volunteers to tight races across the country. Continued on page 24



File Photo by Tom Wilinger
GOP Leader Tom DeLay needs new funding sources for STOMP.

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Republicans Seek New Funding for DeLay's STOMP

Continued from page 1 among other activities. Under new campaign finance laws, however, the parties and lawmakers cannot solicit, collect or spend soft money. That means DeLay must find a new underwriter for his grassroots program — otherwise known as the Strategic Task Force to Mobilize People, or STOMP — which was run out of the National Republican Congressional Committee. "Everything we did with STOMP, all the funding that we used for that, is not going to be there for the next time," said Jim Ellis, who had directed both the soft and hard money sides of DeLay's leadership PAC, Americans for a Republican Majority, or ARMPAC. "The funding mechanism is going to have to change even though the commitment to the program will be strong. The NRCC was't be able to fund it that way, but I'm confident that it will still be in effect." DeLay, who will only increase his power and stature when he officially becomes Majority Leader in January, must walk a fine line as he reorganizes his extensive money operation to meet the new requirements. The new law forced the combative Texas to spin off and distance himself from the soft-money side of ARMPAC. Numerous high-profile lawmakers on both sides of the aisle, such as Senate Minority Leader Trent Lott (R-Miss.) and Speaker Dennis Hastert (R-Ill.), have shut down their soft-money operations, but in the past DeLay has routinely found new ways to legally channel cash under the radar screen. As of Nov. 6 when the new law took effect, Tony Rudy, a former top DeLay aide who now works at the Alexander Strategy Group, took control of the organization and plans to keep

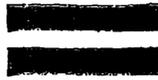
the ARMPAC name, which has been synonymous with DeLay's money operation for years. Rudy, who was DeLay's deputy chief of staff before leaving for the private sector nearly two years ago, said his former boss will not solicit or raise money for the group, although the Federal Election Commission is still trying to figure out whether lawmakers can attend soft-money PAC fundraisers or have their names printed on fundraising invitations for such events. "We need to get together with our lawyers and decide how best to proceed," Rudy said. "We need to be perfectly clear that we're following the letter of the law, and right now there are a lot of open-ended questions about how we're going to proceed." The soft-money version of ARMPAC can legally fund generic Republican direct-mail campaigns, phone banks and voter registration if it is not directly linked to DeLay. Fred Wertheimer, president of the watchdog group Democracy 21, will be watching the transition closely. Instead of simply transferring official control to a former aide, Wertheimer believes the soft-money side of all leadership PACs should be shut down completely. "All these soft money committees should have been shut down by Nov. 6," he said flatly, noting that two Democratic presidential hopefuls, Sens. John Edwards (N.C.) and John Kerry (Mass.), did so before the new law took effect. "Obviously there are some people in Washington so addicted to these corrupting funds that they are testing whether they can blatantly and brazenly legally challenge the [reform] efforts." Still, other advocates for the new campaign

finance law fear there will be few clear lines once the FEC finishes writing its regulations. "Some of the starwars are going to depend on what the FEC does, and they've been sending signals that they are going to be fairly lenient when it comes to defining what constitutes solicitation and coordination by lawmakers," said Larry Noble, the Federal Election Commission's former general counsel who now heads the Center for Responsive Politics. "The [new law] was intended to break the connection between federal officeholders and soft money — whatever thin shield they put up, you still have to weigh whether [lawmakers] are controlling soft money and using it in elections." Ellis, who has run DeLay's money operations for years, has stepped down as the executive director of the soft-money arm of the PAC and now oversees just the hard-money side of ARMPAC. His new goal is to increase the number of smaller donors while retaining the influence and power DeLay has exercised by soliciting hundreds of thousands of dollars from corporations and then directing them to dozens of his colleagues and GOP challengers through the soft money arm. Now that the soft-money side of ARMPAC is technically separate from DeLay, Ellis believes it could be a great vehicle for STOMP money as well as other GOP-friendly turnout efforts. "My understanding is that these 527 organizations can do everything they can today as long as federal officeholders do not raise or solicit money," he said. ARMPAC channels its money to STOMP activities under Rudy's direction; the organization would continue the role it played in previous election cycles. Late in the last cam-

paign, the soft money side of ARMPAC doled out \$78,000 to the NRCC, \$50,000 to the Republican Governors Association and \$50,000 to Texas Victory 2002, an arm of the Texas Republican Party established to increase voter registration and turnout, chaired by Rep. Henry Bonilla (R-Texas). Ellis also said that the hard-money side of ARMPAC would change its name to reflect DeLay's ascension to the Majority Leader position he will assume in January. "You can't have two separate entities running around with the same name," he said. But Ellis stressed that he and DeLay decided to change the name after consulting with election law experts who recommended doing so even though the new law did not require it explicitly. The drive to increase hard money dollars is so great in the wake of the new law that Ellis is encouraging more and more lawmakers to open up hard-money leadership PACs. "The more the better," he said. "Hard money is going to be king under the new law and so everyone is going to have to help raise it." DeLay was also forced to distance himself from his newest 527 organization, Texans for a Republican Majority, or TRMPAC, which he started in late 2001 to help elect Republicans to office in Texas. Ellis said DeLay has resigned from the board, which includes state Sen. Florencio Shapiro (R) and state Rep. Diane White Delis (R). Former Railroad Commissioner Tony Garcia was also a board member and he stepped down when President Bush appointed him to be ambassador of Mexico. Late in the 2002 campaign, TRMPAC contributed \$190,000 to the Republican National Committee's soft money account and \$442,000 to state-level candidates in Texas.

Exhibit E

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CERTIFICATE

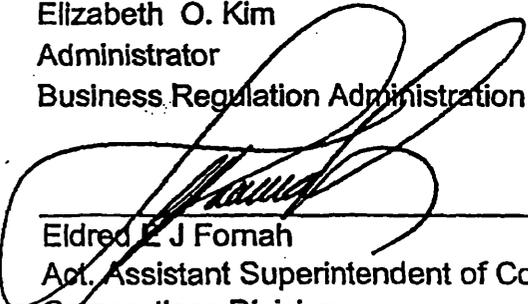
THIS IS TO CERTIFY that all applicable provisions of the District of Columbia NonProfit Corporation Act have been complied with and accordingly, this **CERTIFICATE OF INCORPORATION** is hereby issued to:

DEMOCRATIC STATE PARTIES ORGANIZATION, INC.

IN WITNESS WHEREOF I have hereunto set my hand and caused the seal of this office to be affixed as of the 14th day of August, 2002.

David Clark
DIRECTOR

Elizabeth O. Kim
Administrator
Business Regulation Administration



Eldred E J Fomah
Act. Assistant Superintendent of Corporations
Corporations Division

Anthony A. Williams
Mayor

ARTICLES OF INCORPORATION

OF

DEMOCRATIC STATE PARTIES ORGANIZATION, INC.

FILE

AUG 14 2002

TO: Department of Consumer and Regulatory Affairs
Business Regulation Division
Corporation Division
Washington, D.C. 20001

We the undersigned natural persons of the age of ^{at least} twenty-one years or more, acting as incorporators of a corporation, under the District of Columbia Nonprofit Corporation Act, (Title 29, Chapter 3, D.C. Code) adopt the following Articles of Incorporation:

FIRST: The name of the Corporation is Democratic State Parties Organization, Inc.

SECOND: The period of duration is perpetual.

THIRD: The purposes for which the Corporation is organized are as follows:

The Corporation is organized to help build and strengthen state Democratic Party organizations in the United States, to achieve the goals of building the Democratic Party at the grassroots level and for the acceptance of contributions and making expenditures, within the meaning of section 527 of the Internal Revenue Code of 1986 as now in effect or as may hereafter be amended (the "Code"), all for the function of influencing the election of individuals to public office. The Corporation shall operate as a "political committee" for purposes of and within the meaning of the Federal Election Campaign Act of 1971 as amended, and as a political committee under the applicable laws of any State in which the Corporation makes contributions or expenditures.

In furtherance thereof, the Corporation may receive property by gift, bequest or devise, invest and reinvest the same, and apply the income and principal thereof, as the board of directors may from time to time determine, and engage in any lawful act or activity for which corporations may be organized under the District of Columbia Nonprofit Corporation Act.

In furtherance of its corporate purposes, the corporation shall have all the general powers enumerated in section 29-301.05 of the District of

Columbia Nonprofit Corporation Act as now in effect or as may hereafter be amended, together with the power to solicit grants and contributions for such purposes.

- FOURTH: The corporation's members shall consist of the state committee of the Democratic Party in each of the 50 states of the United States of America, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the Virgin Islands and American Samoa, and Democrats Abroad, each such committee to be represented in the corporation, for voting purposes, by the committee chair and highest ranking officer of such committee of the opposite gender.
- FIFTH: There shall be at least three directors who shall be elected or appointed as provided by the bylaws of the Corporation, who shall be referred to, collectively, as the "Executive Committee" of the corporation.
- SIXTH: Provisions for the regulation of internal affairs of the Corporation, including provisions for distribution of assets on dissolution or final liquidation, are as follows:
- A. No part of the net earnings of the corporation shall inure to the benefit of, or be distributable to, its officers, directors or any other private person, except that the corporation shall be authorized and empowered to pay reasonable compensation for services rendered to or for the corporation and to make payments and distributions in furtherance of the purposes set forth in Article THIRD hereof.
 - B. Upon dissolution of the Corporation, the board of directors, after paying or making provision for the payment of all the liabilities of the corporation, shall dispose of all the assets exclusively for the purposes of the Corporation and in such manner, or to such organization or organizations, as shall be deemed to qualify under the Code. In no event shall any of such assets or property be distributed to any member, director or officer, or any private individual.
- SEVENTH: The address, including street and number, of the initial registered office is 1025 Vermont Avenue, N.W., Washington, D.C. 20005 and the name of the registered agent at such address is CT Corporation System.
- EIGHTH: The number of directors constituting the initial board of directors is three and the names and addresses, including street and number of the persons who are to serve as the initial directors until the first annual meeting or until their successors are elected and qualified are:

<u>Name</u>	<u>Address</u>
Joseph Carmichael	901 St. Louis St., Suite 800 Springfield, Missouri 65806
Bonnie Watson Coleman	226 West State Street Trenton, New Jersey 08608
Molly Beth Malcolm	701 Rio Grande Austin, Texas 78701

NINTH: The name and address, including street and number, of each incorporator is as follows:

<u>Name</u>	<u>Address</u>
Joseph Carmichael	901 St. Louis St., Suite 800 Springfield, Missouri 65806
Bonnie Watson Coleman	226 West State Street Trenton, New Jersey 08608
Molly Beth Malcolm	701 Rio Grande Austin, Texas 78701

Dated: 10 AUGUST 2002

Joe Carmichael
Joseph Carmichael

Bonnie Watson Coleman
Bonnie Watson Coleman

Molly Beth Malcolm
Molly Beth Malcolm

State of NEVADA) ss:
County of CLARK)

The Hill



Wednesday, October 23, 2002

Both parties race to set up new soft-money mechanisms

By Alexander Bolton

Both major political parties and their closest allies are racing against a Nov. 5 deadline to set up organizations able to raise unlimited amounts of soft money.

The drive to set up alternative mechanisms to collect these unregulated funds is aimed at helping federal candidates in 2004 and beyond — when lawmakers themselves will be barred

under the recently enacted campaign finance law from soliciting such unrestricted donations directly.

Meantime, the prohibition on soft-money fundraising by political parties is creating a void that's certain to spark power struggles among operatives and allies seeking to position themselves as the future power brokers for the parties.

"I predict there will be a lot set

up for the House and Senate and not just by the campaign committees themselves, so nobody can predict which of these will be effective or not effective," said Sen. Bill Frist (R-Tenn.), chairman of the Senate Republican fundraising committee. "The deadline is Nov. 5, so there is appropriate rush to both design and file these organizations.

Earlier this year, the leaders of the campaign finance reform

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Parties race to set up new soft-money groups

CONTINUED FROM PAGE 1

effort, Sens. John McCain (R-Ariz.) and Russ Feingold (D-Wis.), hailed its passage as the death knell for soft money.

The reformers originally believed that the kind of end around groups now being formed would be illegal under the legislation enacted by Congress earlier this year and signed by President Bush. However, a series of rulings by the Federal Election Commission (FEC) has reinstated the loophole.

Thus, the contributions they sought to ban are poised to flow through new channels, even before the law takes effect, while it is still being challenged in the courts.

Officials at the National Republican Senatorial Committee and the Democratic Senatorial Campaign Committee (DSCC) are exploring the creation of fundraising groups run by their allies outside the formal party structure.

On the House side, Susan Hirschmann, former chief of staff to Majority Whip Tom DeLay (R-Texas), will spearhead a unified effort to legally raise soft money to help Republican candidates.

While House Democrats, stymied in part by uncertainty over whether Minority Leader Dick Gephardt (D-Mo.) will step down to run for president, have made the least progress designing soft-money conduits for next year, having held only loose discussions on the topic, a senior party source said.

The new soft-money groups, to be organized under sections 527, 501 (c) (4), and 501 (c) (6) of the tax code, will raise money

for issue advertisements and voter contact programs that are now mostly funded by the parties themselves.

At the height of this election season, party officials have escalated preparations for the 2004 election, because they will be prohibited from setting up soft-money groups after Nov. 5.

Parties cannot set up a sham. — Fred Wertheimer

Under a recent controversial FEC ruling, soft-money groups created by the parties before that date may continue to operate as long as the parties no longer formally control them.

"We want to make sure there are adequate conduits for our supporters to help get our message out, so we can compete with what they're doing on the other side," said Rep. Tom Davis (Va.), chairman of the National Republican Congressional Committee. "We're having snuff set up right now."

"We're making sure there are appropriate routes so that issue advocacy continues," he added. Davis said the entire House GOP leadership is involved in the effort.

But campaign finance reformers are protesting loudly, arguing that organizations set up by the party fundraising com-

mittees will not be independent, as required by the new law.

"The law said a party cannot directly or indirectly create an entity that raises soft money, any party that does that is in violation of the law," said Fred Wertheimer, who helped draft the law as president of Democracy 21, a campaign finance watchdog. "Under this statute, parties cannot set up a sham affiliate to do its soft-money raising and spending," he added.

Speaker J. Dennis Hastert (R-Ill.), Majority Leader Dick Armey (R-Texas) and Majority Whip Tom DeLay (R-Texas) currently control separate soft-money political action committees (PACs) that have raised hundreds of thousands of dollars for favored candidates. However, under the new law, they must relinquish control of those groups after the 2002 election.

Some party officials want House Republican leaders to unite their fiefdoms under one organization, such as the one that Hirschmann, now a lobbyist with the law firm of Williams & Jensen, plans to set up.

To do so, such allies of Republican leaders in the lobbying community, as Dan Mattoon of PodestaMattoon and former Rep. Bill Paxon (R-N.Y.) of Akin, Gump, would direct donors to fund that organization. It would then serve as the preeminent soft-money fundraising vehicle on behalf of House candidates.

Hirschmann said House Republicans had not settled on the type of group they would use to get their messages out to voters.

"I'll continue to raise a lot of money to

get that message out," she said. "I don't know if the mechanisms of how to do that will be determined yet. I don't think any final decisions have been made."

For his part, Frist said party officials are looking at a number of groups with plans to raise soft money to help the party.

"We have done nothing formally as the Republican National Senatorial Committee [NRSC]," he added. "We won't participate formally in filing a plan but we will have our legal group over there reviewing them to make sure they are consistent with expressing Republican interests. I don't know which one, but it will be done in the next two to three weeks.

Frist added that as of now there's not a single NRSC-sponsored plan. One Senate Republican source said the committee is looking at relying on political advocacy [501 (c) (4)] or lobbying [501 (c) (6)] organizations.

"[The new law] really puts outside interest groups in a much stronger position to control the marketplace of ideas," said the GOP aide. "There is a desire by the party to be involved in that."

A former high-ranking official in the Clinton administration, who will be involved in redesigning the political fundraising landscape next year, said top donors and officials at the DSCC are looking at setting up a soft-money fundraising organization for Senate Democrats.

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New Ways To Harness Soft Money In Works

Political Groups Poised To Take Huge Donations

By THOMAS B. EDSALL
Washington Post Staff Writer

Some of the biggest names in Republican and Democratic circles are establishing new groups to collect and spend the unlimited political donations that are supposed to be curbed by the recent campaign finance law.

White House political operatives, high-profile lobbyists, former aides of President Bill Clinton and staffers at the Democratic and Republican senatorial campaign committees are setting up tax-exempt organizations to raise and spend "soft money." That term refers to the large sums collected from corporations, unions, trade groups and individuals outside the normal limits on donations to federal campaigns.

One of the new organizations, Progress for America, is operating from the downtown offices of a company run by Tony Feather. He was the political director of the Bush-Cheney 2000 campaign and remains a close ally of Karl Rove, President Bush's top political aide.

Democrats are busy, too. Three former high-ranking aides of Clinton—Harold Ickes, Doug Sosnik and John D. Podesta—are working to set up a Democratic soft-money operation with the goal of running pro-Democratic "issue ads." The three are part of the informal brain trust of Democratic National Committee Chairman Terence McAuliffe.

These efforts underscore the vital role that soft money has played in recent presidential and congressional elections. Until now, the Democratic and Republican parties have

Exhibit H

Continued

New Ways to Harness Soft Money in the Works

DONORS, From A1

been the primary recipients and spenders of such funds, which totaled about \$500 million in 2000. Soft money has been used to finance mass get-out-the-vote programs and ads that have been cloaked as issue discussions but are actually aimed at helping or hurting particular candidates.

The McCain-Feingold campaign finance law—a bitterly debated measure that will take effect on Nov. 6—was meant to sharply restrict the influence of such money, mainly by forbidding the parties from raising and spending it.

That's why political activists on both sides are frantically creating new groups to fill the gap, using provisions of the tax code that allow the creation of tax-exempt organizations that they say are not covered by the new law. These groups can raise and spend soft money as long as they do not coordinate their efforts with the political parties or candidates, according to officials involved in these undertakings.

The officials describe their initiatives as a way to make sure soft money is used on behalf of the broad interests of the two parties, not just the interests of ideological groups on the left and the right. Democrats also contend that the party faces the prospect of being overwhelmed in 2004 by a Bush reelection organization equipped to raise \$200 million to \$300 million. Without some soft money support, the Democratic presidential candidate will be unable to compete, they say.

"It's very clear that there are going to be a proliferation of special interest committees to pick up where the parties were before on soft-money funding," said GOP lobbyist Vin Weber. "The law is going to spawn a lot of efforts to fill the gap in party financing, and the gap should be filled by entities generally committed to the broad interest of the parties."

But supporters of the McCain-Feingold measure fear that these efforts might undermine the purpose of the law by creating new conduits for soft money that require less public disclosure than was required before the legislation was enacted. They contend that these activities are purposeful evasions of the law, encouraged by the weak enforce-

ment regulations issued by the Federal Election Commission.

"To the extent the parties are planning a massive evasion scheme, they are planning massive illegal activity and they will be challenged," said Fred Wertheimer, president of Democracy 21 and former president of Common Cause.

Progress for America (PFA) is precisely the type of organization at issue.

It has raised millions of dollars, which it uses to promote Bush's agenda of tax cuts, energy legislation, conservative judicial appointments and free trade.

Although it takes unlimited donations from corporations and individuals, it discloses neither its contributors nor its expenditures.

Feather, in an interview, said PFA is simply a vehicle for building grass-roots support for Bush's policies. Many other Republicans, however, described it as the first organization designed to capture some of the soft money that the political parties will be barred from accepting after Nov. 6.

PFA has strong ties to the Republican establishment. Its spokesmen include Ken Adelman, the top arms control officer in the Reagan administration. White House operatives, such as Rove and political director Ken Mehlman, have addressed private PFA briefing sessions at the Hay Adams Hotel.

Progress for America isn't the only Republican-related group in the scene. Weber is working with lobbyists Ed Gillespie and Bill Paxson to build an organization to back GOP candidates. Gillespie has strong ties to both the Bush administration and the Republican House and Senate leadership. Weber and Paxson are former House members with extensive ties to the GOP establishment.

The clients of these three lobbyists alone gave \$19.4 million in soft money during the 1999-2000 election cycle, according to the Web site of PoliticalMoneyLine.

Simon B. Rosenberg, president of the centrist New Democrat Network, said: "The center is going to have a hard time holding in the new system. Interest groups will be more powerful tomorrow than today, and there will be a real tug to pull candidates to the extremes."

Rosenberg and others contend

Continued

Backers Say Groups Not Covered by Soft-Money Ban

DONORS; From A6

that the flow of soft money that had gone to the parties will likely go to ideological and single-interest groups that take polarizing stands on guns, abortion, school prayer, unions and taxes, effectively driving the politicians receiving the money further to the right or the left.

To counter this, he said, the New Democrat Network will substantially expand its soft-money fundraising and will add "an aggressive paid media component to our activities." He added: "Our hope is that it will be in the millions of dollars."

From the more liberal wing of the Democratic Party, Mike Lux, a former Clinton aide and a former political director for People for the American Way, said he and his allies plan to unveil two projects in September—which will tap liberal soft-money donors—to fill the "need for more infrastructure on [the] progressive side of things."

"What I hope," Lux said, "is that, unlike so many times in the past, those on the progressive side will actually coordinate."

One affiliate of the Democratic National Committee—the Association of State Democratic Chairs—has already taken formal steps to create a separate organization, the Democratic State Party Organization (DSPO), to raise contributions, including soft money, for get-out-the-vote and voter registration activities.

"We must chart a new path after campaign finance reform," said Joe Carmichael, the Missouri Democratic chairman who will run the DSPO, which will be headquartered in Washington and will register with the Federal Election Commission as a political committee. "Without an organization such as DSPO, grass-roots activities and participation would be eradicated and replaced by television-only campaigns."

To preserve their ability to raise soft money,



HAROLD ICKES



KARL ROVE

both the Democratic and Republican governors' associations are severing all ties with the Democratic National Committee and the Republican National Committee, respectively. The groups will have to live within the new law's restriction on "issue ads" financed with soft money within 60 days of a general election or 30 days of a primary.

Both the Democratic and Republican senatorial campaign committees are exploring the creation of separate soft-money funds. Officials of the Democratic Senatorial Campaign Committee declined to discuss the work of staffers and consultants on the subject. Monica Dixon, a consultant to the DSCC, has been working on plans to channel soft money in support of Democratic Senate candidates, but she did not return phone inquiries.

Alex N. Vogel, general counsel for the National Republican Senatorial Committee, said: "We are looking at all the options for the committee, post-McCain-Feingold and post-Election Day."

A central factor shaping the new organizations is deciding how much information to dis-

close to the public. A number of operatives would prefer not to reveal the sources of the money raised or the details of how it is spent. They say they are likely to form "510c4's," tax-exempt advocacy organizations under the tax code.

Others, including Weber, Rosenberg and officials of the DSPO, say they intend to make this information publicly available by setting up what are called "527" committees, which must make regular disclosures to the Internal Revenue Service, or traditional political committees, which report to the Federal Election Commission.

Progress for America has rejected the disclosure option, and its leaders show little appetite for publicity. Adelman, who noted that he is the group's chairman, said he knows neither the organization's budget nor its sources of financial support.

"I can't tell you off the top of my head," he replied, when asked who was giving to PFA. "We get private donations from businesses and individuals."

Adelman could not remember the phone number of Progress for America, the name of the woman who runs it (Jennifer Oschal) or its address; he had to look them up in his directory. Oschal did not return a phone inquiry. At the office building address Adelman provided, the high-rent Lafayette Center complex in downtown Washington, there is no listing for Progress for America.

Instead, on the center's mezzanine floor, there are offices belonging to FLS-DCL, Feather's firm. Feather described PFA as a "grass-roots organization that supports the president's agenda." Asked to provide its membership roster or to release the names of its donors, Feather—noting that PFA has been organized under the 501c4 provisions of the tax law, which do not require such public disclosure—said, "No."